



MUN

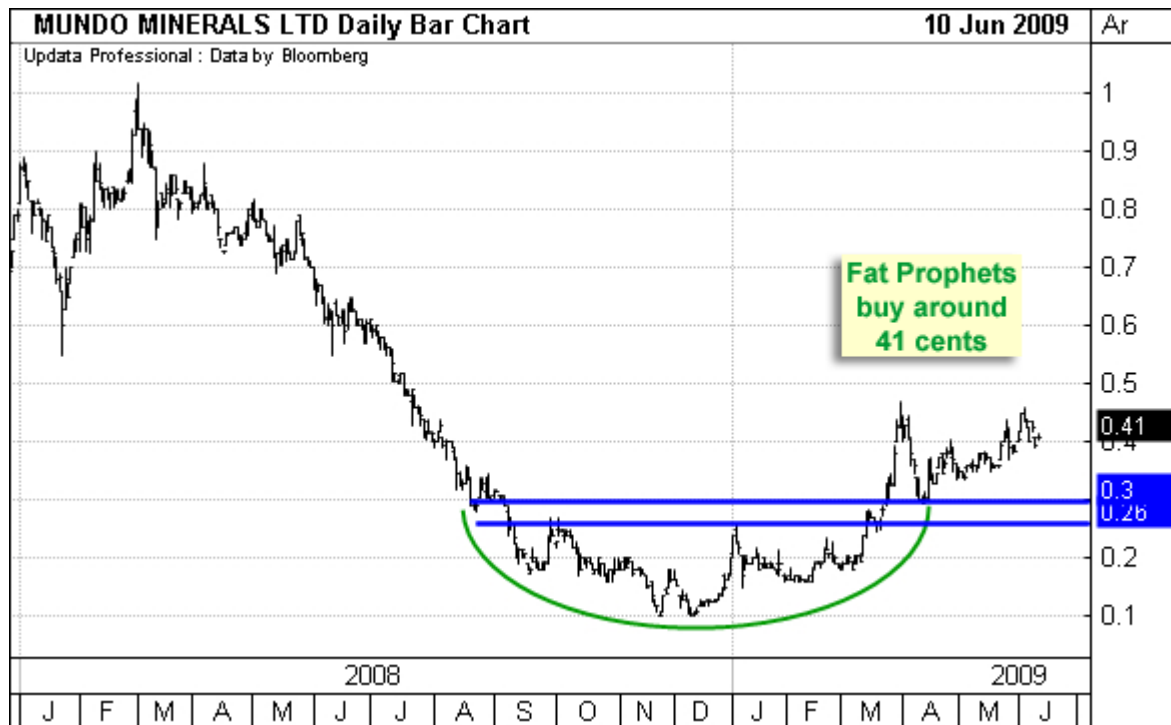
AUD \$0.41



### Re-rating on the back of steady-state production

In our most recent coverage we highlighted the fact that being an emerging gold producer doesn't necessarily guarantee immediate sharemarket success, with companies having to first demonstrate their production credentials to investors. Mundo Minerals is no exception, and after an initial shaky start, the company has benefited from a market re-rating as it has demonstrated consistent production from its flagship Engenho goldmine in Brazil.

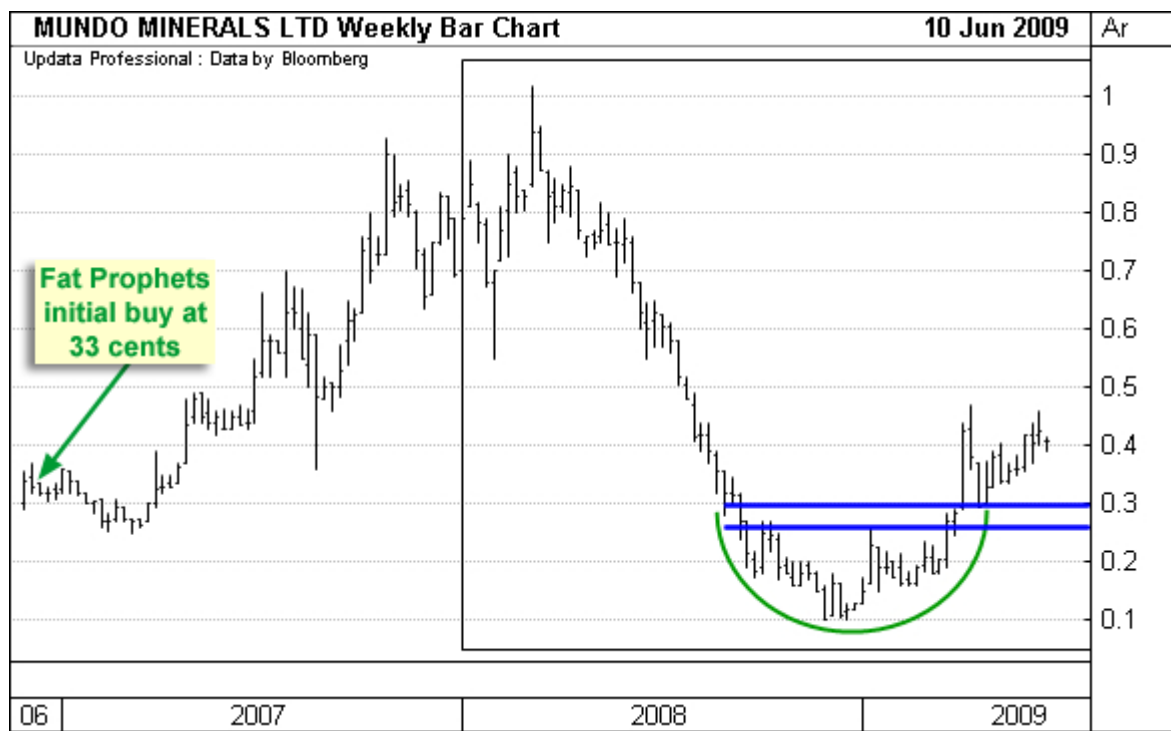
Fat Prophets initially recommended buying Mundo Minerals at 33 cents in November (Fat Mining 51). Our last review of the stock was during March (Fat Mining 165).



From a charting perspective, Mundo Minerals has posted further gains since our last review in March, reaching a high of 47 cents. This is the highest level for the stock since July last year.

As evident on the daily chart, the break above the 30 cent to 27 cent region signals the completion of a six month period of consolidation. In our opinion, any correction from current levels should be limited to the upper boundary of this pattern.

At the extremes, prices declined by over 90% during 2008, from a high of \$1.02, to a low of 10 cents. Nevertheless, with a base now in place, we believe there is potential for a new sustainable upward trend to emerge from current levels.



We had the opportunity to meet with Mundo's CEO, John Langford, last week in Perth. Our overwhelming impression was that of a company that is now firmly in control of the operational aspects of its business. This is hugely important, as it will further fuel the re-rating occurring in the marketplace.

We were always confident, based on the company's management and project pedigree, that it would successfully ramp up and secure steady-state gold production from its Engenho mine. However, the Australian sharemarket has been exposed to a litany of failures by gold hopefuls over recent years, so many investors have felt understandably gun-shy and hence regard all aspiring gold producers with a fair degree of suspicion.

Fortunately, with Mundo investors are in safe hands. The company is getting the basics right, with the Engenho resource model continuing to meet or exceed expectations, with the treatment plant achieving consistent metallurgical recoveries of around 94%.

The company not only has established consistent production and operating costs at Engenho, with a calendar 2009 target of around 30,000 ounces of gold, but also has an achievable plan with respect to turning the company into a mid-tier gold player.

The company is targeting Engenho gold production of around 34,000 ounces next year, which will likely be enhanced by production from a likely open pit operation at Crista, which the company aims to have in production by mid-2010. Initial drilling has commenced at the Crista target, located approximately 1km north of the Engenho mine. This represents a priority focus for the delineation of satellite resources that will help underpin an increase in production from Engenho to a targeted level of 55,000 ounces annually within the next two years.

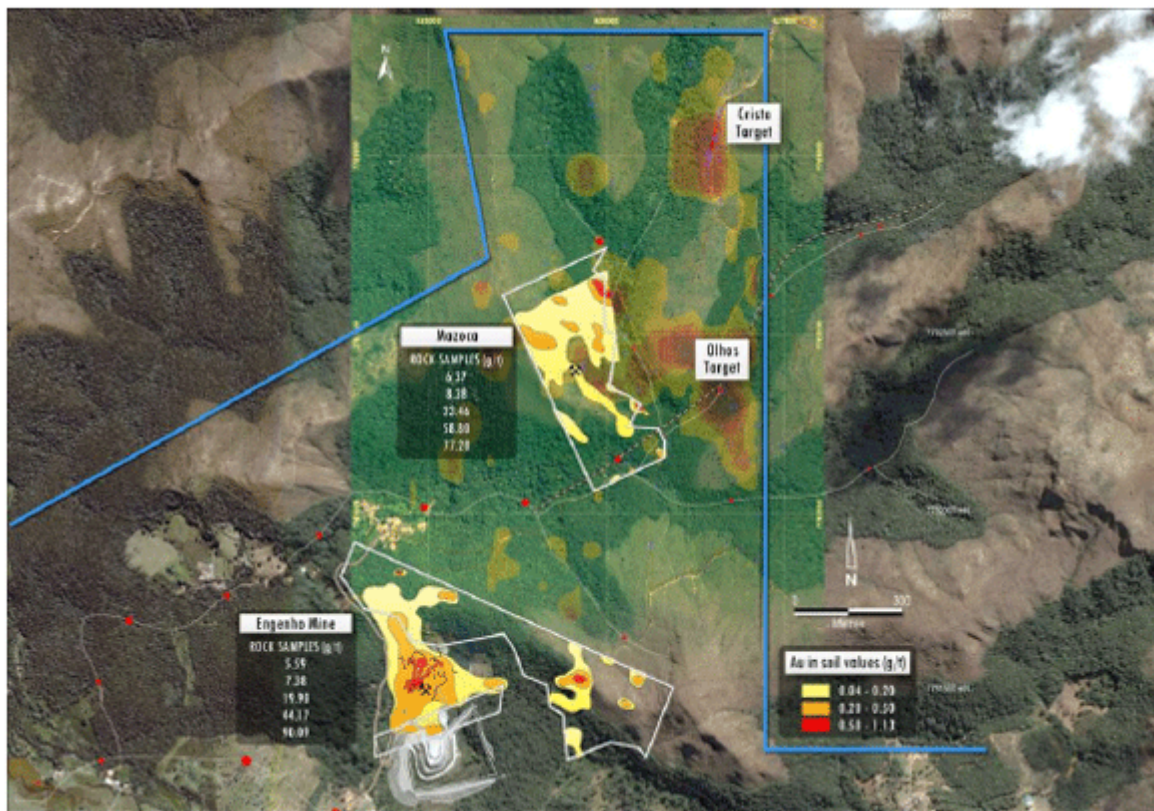


Figure 2 – Location of key anomalies, Engenho Gold Project

The company has just announced some initial results from Crista, which have provided early confirmation of the potential of this area. The first two diamond drill holes both intersected ore-grade mineralization, including zones of 7.35 metres grading 5.67g/t (including a high-grade zone of 2.2 metres @ 12.7g/t) and 5.2 metres @ 15.02g/t. This work will help test the overall potential of the area and underpin an initial JORC resource estimate.

But the company is also very much aware of the bigger picture and to this end a recent asset review has confirmed the company's previously stated aim of developing an annualised production base of 200,000 ounces from its first three production assets, comprising Engenho and Jaqueira in Brazil, and Torrecillas in Peru.

To assist with this task the company has appointed Jean Marc Lopez, the company's current General Manager – Exploration, as its new South American Country Manager. We met Jean Marc on our initial site visit to Brazil and he is indeed exceptionally capable. On our Perth visit last week we also met Mundo's Chief Operating Officer, Andrew Law, for the first time, someone who is extremely knowledgeable and well credentialed with respect to the development and operation of gold projects.

The company's second planned project development is Torrecillas in Peru. Development work there has continued steadily at over the past six months and given the company a considerable amount of geological information about the mineralisation of the vein structures. Importantly, trial mining has given the company a solid understanding of the potential ore characteristics and likely grades that will be encountered in full-scale mining.

During the trial mining phase the company has achieved grades of more than 22g/t gold, for mining purposes the company has assumed a conservative mine grade of 15g/t after taking into account dilution. The company is currently working through the logistics of full production at Torrecillas and in the coming months will move to a full feasibility study.

Production from Torrecillas is relatively straightforward, with the ore being non-refractory in nature and therefore suitable for treatment through a standard CIP process. The company aims to have Torrecillas

developed and in production by mid to late-2011.

So the news with respect to the company is all good. The company is well on top of production and importantly it has a framework for development and implementation of its South American gold project pipeline. We also reiterate that the value in the company is not as a speculative resource play; rather as a long-term generator of wealth for shareholders. The company's ambition is to build a high-quality, mid-cap gold producer.

No resource company is without risk, particularly an emerging producer in the ramp-up stages. However, Engenho should generate a relatively low-risk, sustainable cash flow over an extended period and provide a strong base from which the company can develop its pipeline of gold projects.

We estimate the company to be on a prospective price-earnings multiple of around four times 2009/10 earnings estimates, which makes the company solid buying at around current levels.

**Accordingly, Mundo Minerals will remain held within the Fat Prophets Mining & Resources Portfolio; however for Members without current exposure we recommend the stock as a Buy around \$0.41.**

**Disclosure:** Interests associated with Fat Prophets declare a holding in Mundo Minerals

## Snapshot MUN

### Mundo Minerals

Mundo was formed to acquire and develop gold assets in South America, with a particular focus on Brazil and Peru. The corporate strategy has a focus on medium to high-grade deposits that can be brought into production quickly and which also have the potential for reasonable mine life. The company recently poured its first gold at its 100%-owned Engenho gold project in Brazil and is aiming for budgeted production of 2,500 ounces per month during 2009, in turn generating full-year production of 30,000 ounces.

<b>Market Capitalisation</b>	<b>A\$60m</b>
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